

## **BUSINESS THEORY AND PRACTICE - POSITIONING DESTINATIONS AND SUPPORTING THE TRAVEL AND TOURISM INDUSTRY IN THE POST COVID ERA**

*A personal perspective by the Director General of Airports Council International – Latin America & the Caribbean*

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It is very likely that June 2020 will give us the opportunity to witness business theory in action. The concepts of “first mover advantage” and the “domino effect” are being tested right now as a result of the decision by the Government of Ecuador to restart air transport following the country’s Covid-19 shutdown. Indeed, not only did the authorities allowed domestic air travel to resume on the first of June, but Ecuador also became the first country in South America to reopen international travel to both national and foreign travelers.

We all agree that the aviation industry will not be the same as before Covid-19 struck; or at least for a while. But this will also include the readiness by airlines to reestablish air services, particularly as many carriers in our region have indicated they will not be offering the same capacity as before the shutdown in mid-March. Indeed, aviation in Latin America and the Caribbean is probably going to suffer particularly bad as compared to other parts of the world. By early June; a national airline had already disappeared, TAME of Ecuador; the two largest airlines in the region have already filed for Chapter 11 bankruptcy protection; and in Argentina, Aerolíneas Argentinas is merging with its domestic subsidiary Austral, has announced to furlough up to 8,000 employees, and forecasts losses of 900 million USD in 2020. Copa, one of the region’s most financially strong airlines announced that the average available seat miles (ASM) in 2021 will be 56% below the equivalent figure in 2019.

This, together with the upcoming economic recession, means that former routes linking the region’s airports with other points within the continent and beyond will not return automatically once governments allow the reestablishments of air services. This is why Ecuador’s decision to restart aviation services makes economic and business sense. The domino effect started as soon as the first domestic flights began operating out of Quito airport. Almost immediately after the first timid couple of days, a number of international carriers started to make announcements for the reestablishment of flights to other Latin American destinations, North America and Europe.

In the face of adversity, early positioning to secure the scarce capacity that will be available in the months to come may prove to be the right move. Airlines will probably be very cautious in reestablishing former services. On the one hand, the number of available aircraft will be lower than pre-Covid. On the other, airlines will prefer to tap into sound routes to try minimize any potential financial exposure. Experiments will be avoided. This risk avoidance will be exacerbated because, from an economic perspective, the conditions will be dire as we enter the “new normal”. Indeed, months before Covid-19 had taken a real hold on the region, the International Monetary Fund’s latest World Economic Outlook, published in April, projected that Latin American and the Caribbean would suffer a decline of 5.2% in GDP in 2020 and would have the lowest GDP growth in 2021 of any of the world’s regions.

The Covid-19 crisis is probably going to test how important aviation and tourism is for our economies and societies in our part of the world. And, perhaps more importantly, how well this is understood by our governments. For most of our countries, aviation it is the most important transportation mode. For example, in the Caribbean, more than 90% of travelers arrive by air. This should not come as a surprise if we consider our geographic reality which combines multiple island nations; some of the world's most challenging mountain ranges; and a huge land mass. From a social perspective, the successful development of low-cost carriers in our region is testament that long-gone are the days when aviation was for the well-off and for tourists from far away countries. Although air tickets in our region are still high by international standards, many members of the new lower-middle class can now afford to travel, with the tremendous positive implications this has for the socio-economic development of our countries.

In Latin America, tourism has become one of the most important contributors to economic development, job creation and even environmental protection. According to the United Nation's World Travel Organization (UNWTO), in 2018 there were 73.5 million international tourist arrivals (the great majority by air) generating 75 billion USD for our economies, a growth of 46% over 2010. In particular, South America has witnessed a spectacular growth in international tourism arrivals over the last few years, in large part due to an increasingly competitive air transport sector. From 2010 to 2018 South America saw one of the fastest growth rates in tourist arrivals in the world. And in Central America, international tourist receipts over that same period grew by 85%, from 6.9 billion 12.8 billion USD. And considering both international and domestic tourism together with transportation, the World Travel and Tourism Council calculates that in 2019 the contribution of these industries to GDP was 358 billion USD which represented 8.9% and 13.9% of total GDP for Latin America and the Caribbean respectively. And in terms of employment, they supported 19.7 million jobs, representing 7.9% of the Latin American labor force and 15.2% of the Caribbean's.

As winter approaches in South America, it is probably worth looking at a tourism sector not normally associated with our region but that very much relies on air transport; snow tourism. Although domestic visitors in Argentina and Chile dominate the snow scene, international tourism plays a key role. For example, in 2019 40% of skiers in Chile were international tourists of which 400,000 (25% of the total) came from Brazil and who, by the way, contributed with the highest daily spend per head and longest stays. And in Bariloche, Argentina, in 2019, 28% of skiers came from Brazil, which led Aerolineas Argentinas to schedule a non-stop flight between this Andean city and Sao Paulo during the months of July and August 2020. Of course, air transport is the only option for international travelers to the Southern tip of the continent.

Moreover, ski centers, which tend to be located in sparsely populated areas, are an important source of employment in winter months for Southern Chile and Argentina. In Chile, around 15,000 people work at ski resorts, providing important job opportunities to young people and at a time of year when temporary employability, such as agricultural and forestry activities, drops considerably. However, most of these jobs will not materialize this year if the domestic and international travel ban is maintained.

Another sector considered by many as a byword for the elite is gastronomic tourism. For example, the 2019 World Travel Awards recognized Peru as the "Best culinary destination in the world" for



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the eighth consecutive year. As a result, it is estimated that more than one hundred thousand international tourists arrive by air to Peru with the sole purpose of eating at some of the world's best restaurants. As recognized by the Minister of Tourism, this phenomenon has a direct impact on the lives of many Peruvians as gastronomic tourism has become a tool for social inclusion and to combat poverty.

This is why we believe Ecuador got it right. By being first to reopen to international aviation in South America, the country is making a bold statement about its commitment to air transport and tourism. The government understands the importance of a sector that currently supports over two hundred thousand jobs and 3.2% of its GDP, and that has the potential to double in size over the next 20 years. And this is why we encourage other governments in Latin America and the Caribbean to reconsider the importance of travel and tourism for their economies and allow as soon as possible the restart of both domestic and international air services.

With the implementation of cleaning, physical distancing and detailed operational protocols, airports and airlines have taken firm steps to ensure aviation is not a vector for Covid-19. And last week, with the contribution of ACI, the International Civil Aviation Organization published the report "Take-off: Guidance for Air Travel through the COVID-19 Public Health Crisis". Following a few months of a comprehensible lockdown for public health reasons, economic and social activity must return. Every day that goes by without restarting air transport aggravates the current crisis and future recession, and will make the recovery harder.

The aviation industry is ready to take-off. Now the ball is in the court of the region's governments.

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